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► **To cite this version:**

Pierre-Jean Benghozi, Thomas Paris. The Distribution Function: at the Heart of managing Cultural-Product Industries. 8th Intern. Conf. on Arts et Cultural Management, 2005, Montréal, France. hal-00263017

HAL Id: hal-00263017

<https://hal.science/hal-00263017>

Submitted on 17 Apr 2008

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The Distribution Function:

At the Heart of Managing Cultural-Product Industries

Pierre-Jean Benghozi¹ and Thomas Paris², Aimag 2005

Abstract

Cultural-product industries (music, publishing, movies and television) have faced similar trends in recent years: the growing significance of distribution, the rising cost of promotion, the concentration of demand on ever fewer products, and the restructuring of the value-added chain. The Internet was considered, at one time, a lever for promoting diversity and supporting enhanced creativity; on the contrary, however, its development has contributed to greater concentration and has put increased importance on prescription and distribution portals, creating turmoil among publishers.

This article aims to analyze the role of distributors in the value chain of cultural-product industries in greater depth, as they aggregate demand, prescribe³ cultural products to consumers, and act as contractors for producers. We study distribution and, more specifically, compare three sectors in the cultural-product industry: book publishing, movie theaters and television. These sectors are used to develop a conceptual framework that treats distribution as a network structure. This model helps to show the trends at work in the market with regard to cultural-product industries, in particular mass distribution and dematerialization, the transformation of business models, the significance of phenomena related to the promotion of cultural products, and more.

Résumé

Les industries culturelles (éditions phonographique, littéraire et audiovisuelle) sont frappées depuis plusieurs années par des mouvements convergents : montée en puissance des diffuseurs, développement de la médiatisation et des dépenses publicitaires, concentration de la consommation sur un nombre d'œuvres de plus en plus restreint, transformation des chaînes de valeur. Alors qu'Internet était envisagé, à un moment, comme un facteur de diversité et d'ouverture de la création, il s'est vite avéré que son développement a au contraire contribué à accentuer la concentration autour de sites prescripteurs, en déstabilisant les éditeurs (cf. Benghozi, Paris, 2002).

L'objet de cette communication est d'analyser plus précisément le rôle des distributeurs dans les chaînes de valeur des industries culturelles : agrégateurs de la demande, prescripteurs des consommateurs, donneurs d'ordre et prescripteurs de création. Nous nous appuyerons pour ce faire sur les exemples plus spécifiques de l'édition littéraire, du cinéma et de la télévision. Ils nous permettront de développer un modèle théorique reposant sur une représentation de la distribution sous forme de réseau. Ce modèle permet d'illustrer plus précisément les mouvements à l'œuvre dans les marchés des biens culturels (transformation des modèles d'affaires sous l'effet conjoint de la grande distribution et de la dématérialisation de la consommation, poids des phénomènes associés à la de promotion des œuvres...).

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³ The function of "prescription", which is performed by a "prescriber" and involves taking over a certain part of the consumer decision-making process, is analyzed in Benghozi and Paris (2003).

Introduction

The cultural-product industries (music, literature and audiovisual production) have been affected in recent years by similar trends: the growing importance of distribution, the rising cost of promotion, the shorter duration of cultural products' availability, the concentration of demand on an ever more limited range of products, distributors' increasing investment in production, and the transformation of the value chains. For a while, the Internet was considered a lever for promoting more diverse, open-ended creativity; instead, its growth has gone hand-in-hand with a greater concentration of distribution channels and the destabilization of producers (Benghozi & Paris, 2001).

This article aims to provide a precise analysis of the new role of distributors in the value chains of cultural-product industries: as aggregators of demand, prescribers of consumer choice and sources of orders. To this end, we offer a model of the distribution function and derive the structural characteristics related to all the sectors, i.e. literary, musical and audiovisual production.

This analysis is important because the management of the arts and the economics of cultural products have until now been viewed from the angle of production. The analytical starting point has been the tension between creation and distribution, art and money, and business and production strategies. Several efforts have considered the distribution function in a broader sense, but from an exclusively sector-based viewpoint. For example, Dale (1997) showed how the arrival of television transformed the economics of film, Forest (1995) put forward an economic history of the cultural-product business, and Paris (2004) analyzed the influence of new distribution technologies on the economics of the audiovisual industry, and we have previously dealt with the increasing importance of television operators as prescribers (Benghozi & Paris, 2003). On the other hand, there are few theoretical or conceptual models suited to analyzing the distribution function in the specific context of the cultural-product sector.

The economic dimension of cultural-products concerns the production conditions of a single work (Caves, 2002); it also plays a crucial role in the conditions of reproduction and distribution of existing works. Economies of scale are relevant mainly at the level of distribution, and are almost non-existent at the production level, where discussion focuses on the economy of prototypes and "sunk" costs. Moreover, distribution is of prevailing importance in the value chains of cultural-product industries: in France's case, it accounts for 50-60% of the price of a book (which breaks

down as 35-40% for the retailer, 5-8% for the promoter and 10-12% for the distributor)⁴, 45% for the price of a DVD (30% retail channel, 15% distributor)⁵ and 50% for a movie ticket (42% operator, 8-10% distributor)⁶.

I. Distribution functions and professions in cultural-product industries

In an industrial sector, distribution is responsible for the organization of the interface between supply and demand. It encompasses functions with very different natures: from matching consumer needs and tastes with product supply up to product delivery.

Distribution in the cultural-product sector has a unique feature: once investments in design, creation and production have been made, the marginal cost of making an additional copy or of attracting another consumer becomes very low. Mass distribution thus makes it possible to benefit from substantial economies of scale. It is based on two modes of cultural-product reproduction: material reproduction on recording media (the publishing of books, CDs and DVDs) and reproduction through broadcasting.

The distinction between these two modes of reproduction was traditionally analyzed in terms of stocks and flows (Flichy, 1991). In one case, the existence and storage of recorded media made it possible to exploit works over long periods, and therefore involved a strategy of accumulating an asset base. In another case, the ownership and operation of large broadcasting networks offered an opportunity to increase yields. Nevertheless, this dichotomy of stocks and flows did not take sufficient account of the hybrid forms of distribution that have developed in various sectors: television channels have relied on broadcasting, in this instance musical broadcasts, to develop record production strategies, and authors and publishers of literature have developed collection strategies wherein individual works played less of a role than the capacity to produce a regular flow of titles.

We believe it is important to go beyond this traditional distinction in analyzing the role of distribution. This requires making a more in-depth breakdown of the core roles and expertise involved in distribution within the value chains of the cultural-product industries. At a general level, distribution is organized today according to the following basic functions:

⁴ Based on data from the *Syndicat National de l'Édition* (French national publishing association).

⁵ Data from CNC/U+ me, 2003.

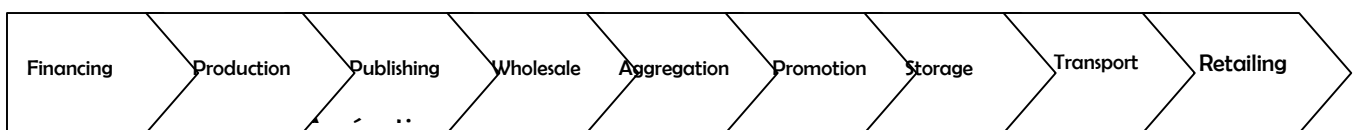
⁶ Source: CNC, 2003 data.

1. The capacity to negotiate, aggregate and acquire rights of use (relations with producers and programming functions).
2. Logistics, which involves organizing the physical flow of cultural products and promotional materials plus managing orders, bills and income flows.
3. Knowledge of and control over a network of sales outlets, in order to handle the distribution of works based on their content and target public.

These three core functions are organized and configured differently in the various cultural-product industries:

- In the *movie* industry, the distributor is mainly involved only after the film is made, organizing the showing of a film in a given area by selecting the cinemas, arranging for its promotion and the physical circulation of copies, and monitoring admissions and revenue.
- In the world of *books* and *music*, the distribution function often breaks down into distribution and promotion: the distributor handles the storage, sale and physical distribution of the media, while the promoter publicizes the works at sales outlets in order to encourage the latter to place orders with the distributor.
- In the *television* industry, the distributor is the operator of the broadcasting station that organizes the broadcast; for specialty channels, it is the entity that handles the marketing of the channels, either individually or as packages.

To understand the various ways in which these configurations actually work, it is necessary to further break down the activities involved in the distribution value chain: financing, purchasing and prescribing (aggregation), industrial activities (publishing), wholesaling (placement), marketing (promoting), logistics (storage and transport), and retailing.



It is thus possible to present the organization of distribution in each cultural-product sector (see the table below; the functions involved in distribution are in bold):

	Publishing (book)	Cinema	Television
Financing (<i>involvement in production of producers' projects</i>)	Publisher	Producer/distributor	Producer/channel
Production (<i>orders for works from producers</i>)	Publisher	Producer	Producer/channel
Publication (<i>handling reproduction</i>)	Publisher	Distributor	-
Placement (<i>promotion at sales outlets or via networks of prescribers</i>)	Promoter	Distributor	Producer
Aggregation (<i>aggregation of orders, invoices and deliveries</i>)	Bookstore	Operator/programmer	Channel/distributor (packages of channels)
Promotion (<i>to end consumers</i>)	Publisher	Distributor	Channel
Storage (<i>storage of recorded media</i>)	Distributor	Distributor	-
Transport (<i>logistics of delivery and distribution to consumers</i>)	Distributor	Distributor	Channel
Retailing	Bookstore	Operator	Channel

This table clarifies the variety of configurations in these sectors⁷:

1. The *publishing* model is marked by a sharp division of labor between the various participants in the sector: publisher/distributor – promoter/bookstore, in the case of books. This division of labor functions as part of a sequential process in which the various participants act in succession.
2. The *cinema* model is also characterized by a sharp division of labor and the separation of responsibilities among producer, distributor and movie theaters. The process is less sequential and implies a high degree of interaction between the various levels. For example, the distributor is often highly involved upstream in production by handling part of the responsibility of production itself and through commitments in the form of advance payments on future revenues.
3. *Television* is a highly integrated model where it is difficult to separate the various functions in the value chain. The television channel has a predominant role in every step of the process (with the exception of the transmission of signals, which is often subcontracted to a technical operator).

II. Mechanisms of distribution: the various forms of value creation

The difference among these three models is in part a consequence of the different ways works are made available to consumers. As we have already shown in our analysis of the handling of copyrights (Benghozi & Paris, 1999), the forms of distribution in the cultural-product industries might be classified according to their “spatio-temporal availability”: a work is accessible at one or more specific times or on an ongoing basis, in one or more specific places or in any place at all:

⁷ It might be asked whether these three configurations correspond to three different steps in a single trajectory and the increasing importance of scheduling, but this issue goes beyond the scope of the present article.

- *Publishing* model: temporal availability is continuous (once published, a book is constantly available), but geographic availability is discrete, as books are available only in a limited number of places, i.e. bookstores.
- *Cinema* model: both temporal and geographic availability is discrete, as a film can be viewed only at certain times and in the movie theaters where it is being shown.
- *Television* model: geographic availability is continuous, as any TV set that is connected anywhere can receive broadcasts, but temporal availability remains discrete, as programs are organized at clearly defined times.

Cultural-product industries				
Geographic Temporal	One-off availability (one point)	Discrete availability (n points)	Continuous availability (ubiquity)	
One-off availability (one instance)	Performance	-	Live TV	TV broadcasting Flows
Discrete availability (n instances)	Live show	Movie theaters	Multi-broadcast TV	
Limited continuous availability	Exhibitions	Press		Stock
Unlimited continuous availability	Museums	Distribution (published works) Libraries	Internet (VOD, online shopping, etc.)	

Cinema
Publishing

Historically, strategies and technological development have shifted methods of consumption downward and to the right of this table, in particular by generalizing the delivery of cultural products to the home and due to the increased availability of works. Nevertheless, the models represented in the table still co-exist, with no shift by the industries as a whole to what might be called the “Internet” model. This is due to several factors:

- *The format of the works*
Not all categories of product are suited to every form of promotion and thus of distribution. The live show cannot be distributed per se as a publication until it has been recorded and published. Likewise, paintings and works of fine art do not fare well if not viewed in person.
- *The nature and quality of the service*
The various types of promotion do not render comparable service to the consumer, as can be seen in numerous cases in the history of culture. For instance, in the 1980s the movie industry feared that the videocassette recorder would render traditional theaters obsolete by doing away with the dual constraints of time (fixed showings of a film) and place (the

need to travel to a theater). Nevertheless, movie theaters continued to prosper because viewing a film on a TV set at home was not an adequate replacement for viewing a film collectively on a big screen with high-quality sound.⁸ Likewise, the broadcast of a live show is not exactly the same as watching it in person, where the direct physical presence and the sharing of a common experience represent crucial components of the event.

An analysis of the preceding table leads to a number of different comments and conclusions pertaining to the status of distribution relative to production and the nature of the strategies being used to address issues of availability.

Distribution and the price paid

The economics and management of the arts are based on the specific characteristics of cultural products. Consumer choice depends less on any objectifiable characteristics (listening time or number of tracks, for example) than on the “quality” and subjective value attributed to the content. The preceding table also shows that the situations where works are used and enjoyed are also decisive: whether times are predetermined or not, and whether the selection of works is predefined or not. Sometimes works that are *a priori* comparable come into direct competition, sometimes not: the development of VCRs and DVDs did not undermine attendance at movie theaters at all, whereas the rise of downloading has called into question the mode of publishing and distributing music on CDs.

The predominance of the context in which a work is used over its intrinsic characteristics is reflected in the structure of the prices consumers pay. The prices of cultural products are still, to a very great extent and in every sector, a distribution base price that is set for all products of the same type, independently of the production costs associated with each of the individual works distributed. The price of a CD (or a DVD or movie ticket) is therefore equivalent for two different works even though their production costs might easily vary by a factor of 100. Regardless of the medium or mode of use, the price paid by the consumer leaves only a very small portion of the remuneration for producers (on the order of 10-15%). This leads to very great imbalances in the economics of the cultural-product industries. The capacity to alter distribution prices (established for all products on the same types of media) is very low, whereas the costs of production and promotion are simultaneously experiencing galloping inflation (the “blockbuster” effect).

⁸ In the 1960s, operators of movie theaters responded to competition from television and a dramatic fall in attendance with an in-depth overhaul of theater operating conditions. They sought to distinguish movie houses from television broadcasts by improving the technical conditions of the projection (big screen, stereo, adoption of color and so on). More recently, this same spirit has led to the development of multiplexes.

Strategies for managing availability

For companies in the cultural-product industry, one way to ensure the growth of their business is to escape the constraints on availability by moving along the two axes of the table so as to escape the discrete or limited character of consumption by developing methods of unlimited distribution (in space and time) or by escaping the undifferentiated character of permanent availability by creating a “rarity effect” through the use of an event policy or by restricting supply.

In the audiovisual field, for instance, while there were 56,300 titles broadcast on the main radio stations in 1995, this number fell to 48,000 in 1996, 38,000 in 1997 and 24,400 in 2000. In particular, the ongoing integration of the results of systematic audience studies (using a panel to classify tastes, titles, levels of rotation and saturation, and so on) into music radio programs led to a drastic shrinking of playlists (20–40 tunes played up to seven times daily). Likewise, in the book industry, large retailers will only stock between 2,400 and 9,000 books, depending on their size, out of some 40,000 new titles.⁹

In the cinema sector, distributors concentrate the release of films into an increasingly short period while occupying a growing number of screens (reduction of temporal availability but expansion of geographic availability). This strategy raises distribution costs (a greater number of copies) but helps maximize the impact of promotional campaigns. An analogous phenomenon can be seen in the book publications sector. In both sectors, the “take the money and run” strategy involves a combination of budget inflation, massive releases, intense promotion, very rapid ageing and sharp fall-off in attendance after the launch period. This gives rise to an inflationary effect where, unless there is immediate success, the low level of distribution makes it impossible to offset production costs and sometimes even distribution costs. This phenomenon, combining quality inflation and growing deficits, was designated the “permanent festival” trend in live entertainment (Dupuis et al., 1981).

The temptation for distributors to ensure maximum visibility and monopolize available media leads to saturation. This can be either geographic or temporal: bookstore shelves are physically limited, for example, as are the number of screens available for showing a film in a given period and the duration of peak hours for broadcasting an audiovisual program (particularly when this period corresponds to the consumer peaks most highly desired by all distributors).

Because of this, the strategy of media coverage leads to a shortened lifetime for a work and a drastically reduced range of works available, all to the benefit of those that are most successful. This concentration on an increasingly smaller number of works can be seen in every sector: the volume of

⁹ This enables them *inter alia* to cut their logistics costs by selecting books with the greatest turnover (60 days in hypermarkets versus 100 in bookstores) and with the greatest likelihood of sale (only 15% in unsold returns from hypermarkets versus 22% from bookstores), which means the works with the lowest capital costs. In addition, as purchases take place through a central purchasing office, this makes it possible to negotiate additional discounts by grouping purchases.

works created and produced is increasing, but the number of those that account for attendance, listening or sales is tending to fall at the same time.

III. Analyzing distribution as a network structure

The underlying hypothesis of this article is that distribution has an extremely influential effect on the supply of cultural products. Independent of the type of product, the structure of the network imposes managerial constraints on the various links in the value chain and influences the strategy of the players. In this section, we will first endeavor to describe the various types of network; we will then, using several examples, show how our model offers an effective framework for analyzing the dynamics of the different sectors.

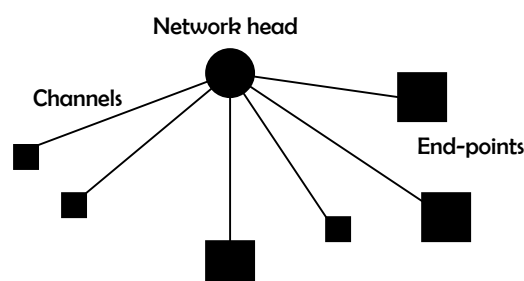
a) The structural variables of distribution

A distribution network is a system of channels that, from a point of origin, convey a work to the consumer, whether in his or her own home or in a place of consumption, i.e. a movie theater, a bookstore or the like (delivery). These networks can thus be described as comprising a network head (site of production or source of reproduction), a number of channels (structure for distribution and making the work available) and a number of end-points (points of contact and interfaces with the end consumer). Each of these components is characterized by a specific cost structure: investment costs, fixed operating costs (recurring and independent of the number of products distributed), and variable operating costs (per product distributed).

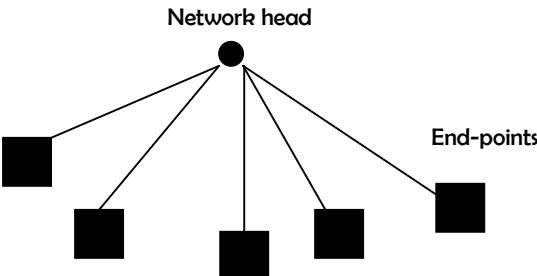
Distribution can thus be modeled as a network of the following dimensions:

- Cost structure of the head of the network (investment, fixed operating costs, variable operating costs).
- Cost structure of a channel (investment, fixed operating costs, variable operating costs).
- Number of end-points (density of geographic network).
- Cost structure of an end-point (investment, fixed operating costs, variable operating costs).
- Capacity of end-points (number of works at a given time).

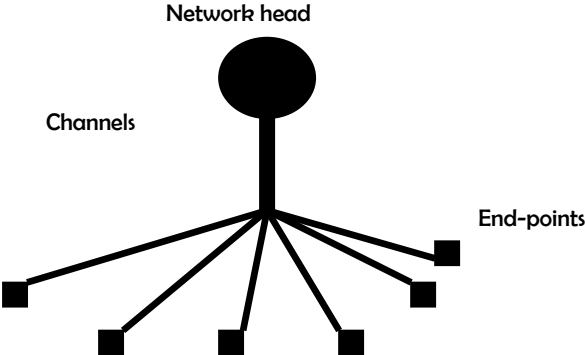
Graphic representation of a network



The cinema, for example, corresponds to a network with a low geographic density. The end-points (theaters) concentrate the investment costs: heavy plant (construction of movie theaters) and fixed operating costs (employee costs), to which should be added the price of hiring the works shown. Conversely, the network head and the channel, which handle printing, reproducing and transporting the copies, mainly involve variable costs.



Television corresponds to a radically contrasting type of network, wherein geographic density is pushed to the extreme (as every consumer is potentially connected). The investment costs of the end-points (TV sets) are virtually nil and are borne entirely by the consumer. The costs of the network head and the channels can differ, depending on the type of distribution used, but they are very heavy in any case. The largest investments (antennas, relays, transcoders etc.) generally fall on the telecommunications operators, who subcontract the physical transmission of the signal from the TV broadcasters. In the television sector, the costs of the channel and the network head show up as variable costs: leasing frequencies for microwave or satellite transmission, or maintenance of the cable or Internet network (TV over ADSL). The bulk of the variable costs, employee expenses and technical distribution costs are concentrated at the network head.



b) Network throughput

This model neatly deals with a major phenomenon in the cultural-product sector: the apparent contradiction between the increase in production and the diminishing number of works that are actually available to consumers. This contradiction can be explained in terms of throughput, congestion and network saturation.

Some characteristics of the three networks, in the case of France

	Publishing		Television		Cinema	
Number of end-points:	Bookstores Hypermarkets	18,000 1,100	TV sets	10⁷	Movie theaters	5,300
Capacity of end-points:	Listings in stock	3,000-10,000	Channels	6 microwave + 100 subscription channels	Screens	1-15

The table from the preceding section showed us that the capacity of a network must be viewed first in physical terms, i.e. availability is limited to a given time and place. Depending on the case, the network can distribute either one or several works at the same time; a television channel can broadcast only a single program, whereas a book distribution network has a much more substantial capacity, which can even perhaps be pooled.

The second component of capacity has a temporal nature and pertains to the potential that the network has for storage (or lack thereof) at the level of the network head (the case of Internet servers or interactive TV channels) or end-points (downloading or local recording, for example). In the case of book publishing, the storage capacity is shared and distributed at every level of the chain: books are available in bookstores, distributors hold interim stocks and producers keep reserve stocks.

Sidebar: the case of publishing in France

Below we will narrow down the representation of channels and the structuring of the network in the bookstore sector.¹⁰

	Estimated number of sales outlets	Titles available
Large specialized and multi-specialty retailers	50	More than 50,000 titles
General bookstores with diverse range	2,300	More than 50,000 titles
Specialized bookstores	500	From 2,000 to 20,000 titles
Bookstore/stationery store with limited range	3,000	From 1,000 to 5,000 titles
Hypermarkets	1,000	From 1,000 to 5,000 titles
Newspaper outlets	11,990	Less than 5,000 titles

¹⁰ Source: ASFODELP, *Le Métier de Libraire*, ECL, 1995.

Supermarkets and corner stores	7,250	Less than 5,000 titles
Total	26,090	

About 15,000 end-points regularly sell books and have opened an account with at least one of the two main distributors. Among these, 2,500 to 3,000 – i.e. the “big bookstores” – automatically receive new releases from the main distributors, while 700 to 1,300 of the most important customers (bookstores and large cultural-product retailers, who represent 60-75% of distributor sales) are frequently visited by sales reps and receive the highest sales discounts. This is also true for some 700-800 hypermarkets, which are handled by a special team of representatives.

IV. The impact of distribution on supply and sector dynamics

The structural characteristics of networks underlie a number of trends that can be observed in the cultural-product industries. For example, multiplex theaters in the movie industry have been expanding for some 20 years and reflect a desire to distinguish the cinema experience from television. There are also strategies designed to pool the variable costs of end-points and to increase throughput. By offering more than films, operators reduce limitations on throughput and at the same time increase the base for amortizing their costs.

Similarly, the turmoil in the music industry resulting from the rise of peer-to-peer Internet file-sharing might be viewed as a radical change in network structure. In this case, the cultural-product sector shifts further from the publishing model – wherein physical distribution plays a significant role and a rudimentary network and expensive end-points are relied upon – toward a *sui generis* model wherein the end-point costs have been eliminated and the network becomes general. Network transformations like this lead to the recomposition of the value chains (Benghozi & Paris, 2001).

The changes in the European audiovisual landscape, which has been marked by the successive arrival of cable, satellite and now digital television, can be analyzed in a similar fashion, from the viewpoint of the transformation of the relevant networks (Benghozi & Paris, 2003, Paris, 2004). More specifically, we can show the various types of impact that network structure and constraints have on the configuration of the cultural-product sectors and on cultural-product supply.

a. A process of economic concentration

In the cultural-product sector, distribution gives rise to such phenomena as monopolies and oligopolistic domination. The combination of the scale of investment needed to build a network infrastructure, the existence of rising yields and the phenomena of “natural” monopolies, plus the need for technical regulation that is found, for instance, in the microwave transmission network,

leads to the raising of substantial entry barriers and fuels the rise of an economic situation marked by the significant presence of monopolies and oligopolies.

There is a trend toward concentration in distribution in every sector, in publishing as well as in music and cinema. This has a sharp impact on the determination of cultural-product supply, leading to pressure toward a growing concentration of publishers on the one hand and to the favoring of the largest-scale sales outlets and aggregation on the other.

b. Developing secure relations with content providers

The constraints that affect distributors have an impact on their relationships with publishers. Distribution systems function according to flow and scheduling strategies. Distribution companies (for instance, television operators and monthly magazines) thus face the need to stabilize the supply of the content they disseminate. This requirement leads to the development of block transactions: the purchase of a number of titles at the same time (“block booking”) or a commitment to the development and acquisition of a series of works.

More specifically, when the end-points of a network face direct competition (in a single geographic area), they might wind up negotiating exclusive rights to products so as to distinguish themselves from the competition. Audiovisual programs (films, sports and shows) are thus broadcast only on a single television channel, whereas a book might be available simultaneously in every bookstore.

To ensure exclusive rights, distribution firms are pushed to intervene upstream in the production process, at an earlier or later point depending on the network’s characteristics. This can take the form of one-off agreements on a project, such as co-production financing and pre-purchase agreements. Today this is seen in movies, but in other sectors as well such as books. Upstream intervention can also take the form of capital relations. This latter phenomenon is seen cyclically in the cultural-product industries. In the audiovisual world, the AOL-Time Warner and Vivendi-Universal mega-mergers are particularly striking recent examples.

This desire to intervene upstream to ensure exclusive rights to works runs into the specific level and structure of risk that exists in the cultural-product sector. Given the uncertainty about the future artistic quality and success of a work, and the dramatic uncertainty of the success to be expected, the distributor has an incentive to put off its decision, waiting as long as possible for the moment when it will be in a position to make the best possible assessment of the quality of a film. Conversely, the negotiation of exclusivity clauses to ensure the rights on a future success calls for the earliest possible commitment in the production process, ahead of the competition. Distributors strive to adjust their intervention in this process to resolve these contradictory pulls. In the movie industry,

they frequently use co-production-type investments and pre-purchases (a minimum guarantee corresponding to an advance on revenue). By acting as co-producer, the distributor takes a financial risk on the film's success; by providing an advance payment, it lessens its risk¹¹, as such a case concerns the accuracy of its level of anticipation alone.

Nature of the relationship with suppliers: the audiovisual case

Scale of purchase Time of purchase	By unit	By package
On a project	Cinema/TV film <i>Pre-sale</i>	Series
On a finished product	On-the-shelf purchase (cinema film/theater showing, TV program) Markets	Block booking

Source: Paris, 2005.

c) Managing congestion

In any network, the limited dimensions of the channels and end-points create potential spots for congestion and depletion. Companies in the distribution chain that can master these bottlenecks will be of very great importance because they can, in effect, regulate the flow by selecting from the given supply those works that will or will not have access to given points and channels. This gives rise to a variety of strategies.

In the cinema world, the congestion factor lies neither at the network head (virtually unlimited potential to print copies) nor within distribution channels (no particular logistics obstacles), but in the capacity of the end-points, i.e. the number of theater screens is intrinsically limited, and the period of running time cannot be compressed. It is interesting to see how congestion issues are handled, as all the films are vying both for the same periods and to occupy the greatest number of theaters possible. Solutions have been developed at the level of the end-points: an increase in the number of screens in multiplexes to minimize the geographical constraint, and multiple showings of successful films on several screens in the same theater (to minimize the temporal constraints on distribution). On the other hand, distributors have a strategy of enhancing their power of selection and their control of the choice of films to be distributed (prescription function). To this end, they have a tendency to dissociate the function of distribution, as strictly conceived, from that of programming. They have, in effect, shifted to the level of the distribution channel a (value-added) function that was hitherto associated with the end-point.

Comparable changes are occurring in the publishing field (books and music). In these cases, the hypermarkets and large specialized retailers represent the main marketing channel. These sales

¹¹ The risk is lessened in that the distributor is given priority reimbursement on the first revenue earned by the film.

outlets concentrate their purchases through central purchasing offices that place grouped orders so as to maximize their bargaining power. It is interesting to note that negotiations concern not only “financial” clauses (margins granted, delivery deadlines and guarantees on returns), but increasingly the selection of titles as well (or the equivalent of the “programming” function). To ensure the listing of a title in their stores, distributors ask producers to present their marketing plans (TV and radio campaigns, press purchases etc.) before deciding upon its placement; in most cases, producers must also grant additional discounts in order to be given particularly favorable positioning and improve product presentation.

In any case, management of congestion leads to the transferring of activities and thus to economic concentration in the network.

d) Pooling the costs of diversification

In contrast, the networks might also be affected by depletion phenomena. The business players might respond, as we’ve seen, by structuring their various kinds of upstream links with content providers. They might also respond by diversifying use of the network, whether that means channels or end-points. This helps to amortize the network’s operating costs over a number of activities.¹²

Traditionally, the various channels of the networks are activated uniformly, i.e. they convey the same works for all the end-points. The Internet and video-on-demand now offer new possibilities. The networks have the technical capability of choosing to temporarily devote a channel or a particular product to a given end-point.¹³ Due to constraints related to saturation, certain networks have proprietary strategies, and access to the network is strictly controlled. The result is a reversal of the relationship between content providers and networks. In the case of publication distribution, for example, content providers purchase the distributor’s services; in the case of television, it is the network operators who purchase the content.

Cyclical effects

The dynamics that can be seen in cultural products take the form of cyclical movements; the relationship between broadcasters and record producers in the French audiovisual sector provide an example.

Until the 1980s, the value chain favored broadcasters, as programming was basically controlled by an oligopoly of four national radio stations. To ensure that their artists had access to the airwaves, record producers had to convince the station programmers. Some radio programmers and radio executives, and then the radio stations themselves, set up music production companies to produce songs for broadcasting. Co-

¹² Our model might be refined to take into account end-points’ capacity and strategies to amortize their fixed costs over a variety of products – for instance, movie theaters that sell food and drink, or hypermarkets for which culture products represent only a tiny part of an extremely wide range of products.

¹³ This situation reflects a broadcast/download duality, where downloading corresponds to a “customized” relationship ordered by the end-point.

production then became a required means of ensuring access to the airwaves. The radio stations themselves now owned production subsidiaries.

At the end of the 1980s, the balance of forces shifted in favor of the internationalization of production and the “massification” of the global market. Programmers were no longer able to impose their personal choices, but were instead subject to trends in fashion and popularity that developed largely outside their control. The advertising departments of the channels have now become the main record company contacts¹⁴, and programmers are now required to play the tunes that are covered by plans for mass release. The media and major players work out ways to cooperate in synergy segmenting the market and coordinating publicity campaigns and programming so as to create “events” and profit from the subsequent impact.

In the 1990s, broadcasters specialized according to format¹⁵ and competition among them sharpened (music radio playlists, co-branding etc.), once again modifying the relationship in their favor. Broadcasters in both TV and radio rapidly expanded their music production subsidiaries, which relied on the channel’s programming capacities to develop partnerships with producers (summer campaigns, album promotions etc.). In return, they ask to benefit from a form of remuneration indexed according to sales (performance agreement).

Finally, another way of avoiding the depletion of the channels is to accelerate the rate at which works circulate in order to be able to broadcast more without increasing the size (and cost) of the channels.

Conclusion

This article has sought to assess the importance of the role of distribution, in the broad sense, in the economics of the cultural-product industries. An analysis of distribution must avoid two pitfalls in the management of the arts and culture: first, treating the phenomena in question as being commonplace and purely analogous to those that exist in other sectors, thus obscuring them, and second, reducing the problems posed by distribution to a simple question of the economic equilibrium of the sectors and the balance of forces between upstream and downstream.

It seems to us, however, that distribution must be fully reintegrated into the core of the management research program and the economics of culture, as it involves basic methods of creating the value of goods. Cultural products do not have an intrinsic value based on their content; their value derives instead, to a great extent, from conventions, methods of use, and social constructions (Becker, 1982). As marketing analysts have amply demonstrated, distribution thus contributes decisively to identifying quality and fixing value, in particular by performing a role in

¹⁴ This trend gained strength in France with the authorization in 1989 of television advertisements for albums, which had previously been prohibited.

¹⁵ The widespread use of ever more specific formats has led to greater differentiation and dual segmentation: 1) according to music (the narrowing of musical genres, a reduction in the number of titles broadcast and greater turnover) and 2) according to target group (targeted age groups).

filtering and selecting from supply. We have already analyzed this while showing the close interrelationship between the functions of distribution and prescription (Benghozi & Paris, 2003).

The limited framework for this article makes it impossible to explore all the dimensions of the distribution of culture, a task that would call for a more in-depth study. Further work is required to analyze its economics and business models. As the preceding exposition has suggested, the positioning of distributors in the value chain and their more specific focus on a given function (prescription, logistics, promotion or programming) go hand in hand. By choosing to highlight a limited number of products (or, on the contrary, to offer the broadest possible range) or by choosing to establish one-off relationships with consumers (or, on the contrary, to establish long-term relationships based on a subscription), distributors are tending to develop their profession and their position in the industry, without necessarily having anticipated doing so. As prescribers, they play a more or less vigorous role depending on the extent to which they are committed upstream in the value chain. The importance of this observation can be fully appreciated in the case of the Internet. On this occasion, we have not specifically developed an analysis of the new context being created. Nevertheless, because our model is constructed by taking into account network structures, it provides categories that are particularly suited to the study of those changes underway today that are affecting distribution networks.

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